

COUNTY OF YORK

MEMORANDUM

DATE: November 18, 1999 (BOS Mtg. 12/1/99)
TO: York County Board of Supervisors
FROM: Daniel M. Stuck, County Administrator *DM*
SUBJECT: Issuance of Sewer Revenue Bonds

Issue

Approval of the Bond Sale Resolution necessary for the issuance of \$9.4 million of revenue bonds to support the continuation of the sanitary sewer projects outlined in the County's Utilities Strategic Plan.

Considerations

Over the course of the past several months staff has worked to prepare for the issuance of \$9.4 million of sewer revenue bonds. To date the Board has adopted two resolutions dealing with the proposed bond sale. On July 21, 1999, the Board adopted Resolution R99-132 to authorize the County to reimburse itself from bond proceeds for capital expenditures made prior to the issuance of the bonds. Resolution R99-154, which authorized the County Administrator to procure the legal and financial services necessary for issuance of the bonds, was adopted on August 18, 1999. McGuire, Woods, Battle and Booth have been selected as bond counsel, BB&T is serving as the financial advisor and First Union has been selected as the underwriter. Prior to issuance of the proposed bonds it is necessary to conduct a public hearing and, following the public hearing, the Board must adopt a resolution authorizing the sale of the bonds.

Background

As the Board is aware, the corridor along the southeast leg of Route 199 from the Fuel Farm to Interstate 64, including the Penniman Road area, has been targeted in the Comprehensive Plan as an area for commercial/light industrial development. Significant development is already underway and staff feels that additional growth is imminent. To determine the infrastructure needs required to support the expected development, the Board approved a sanitary sewer study to address this issue. The salient points of this study conducted by McKim and Creed are as follows:

1. The Rolling Hills Pump Station serving this area is presently at 81% of capacity and cannot practically be expanded.
2. To serve this corridor a new 1.6 million gallon per day (MGD) sewage pump station on the site of the abandoned Sanitary District No. 1 Sewage Treatment Plant would be constructed.

York County Board of Supervisors

November 18, 1999

Page 2

3. A new sewage force main would have to be constructed along Route 199 from the intersection of Penniman Road to Interstate 64.
4. Some re-routing of existing flows from the Rolling Hills Pump Station would be required.
5. The cost of the above work is estimated at \$2.4 million.

It is staff's opinion that if this work is not done up front, the development of this area will be negatively impacted due to the length of time it would take to design and install the infrastructure on a piece-meal, development-by-development basis. Basically, doing the project as a whole would be the same approach approved by the Board in authorizing the County-initiated infrastructure project that is allowing the accelerated commercial development in the Lightfoot area. This approach would provide the most efficient and economical process for serving the corridor and, as individual development projects are proposed, appropriate utilities extension agreements would require that each project bears an appropriate share of systems' costs. Undertaking this project without a bond issue would have a major impact on the ability to meet the current scheduling commitments of Target 2004.

During the work session conducted November 10, 1999, staff presented the updated Utilities Strategic Capital Plan (formally known as Target 2004). As you are aware, even without the project described in the preceding paragraph, it was originally recognized that a bond issue would be needed at some point to continue installation of utilities for existing neighborhoods at the present rate. Staff believes that maintaining the current schedule is important for the following reasons:

1. The plan(s) to date have matched human resources and available funds to the construction schedule to maximize engineering/construction efficiency. Clearly, this approach has worked well and appears to have met or exceeded the Board's expectations.
2. The high cost projects such as the Dare Project have been phased and to disrupt this progression, as would be necessary without a bond issue, would not be cost efficient and would probably result in citizen discontent. Most other neighborhoods presently scheduled for infrastructure improvements strongly support the system installation and are fully aware of the anticipated construction schedule. A bond issue at this time will allow the project schedules and the citizens' expectations to continue to be met. It is staff's opinion that the other alternative, i.e., significantly extending the installation time frame of these infrastructure improvements, will result in higher overall costs and adverse public comment.

WORKING WITH THE FINANCIAL ADVISOR, staff has again reviewed the priority of the projects, the anticipated cash flows and the financial condition of the Sewer Utility Fund. Based on this review, it is recommended that the Board consider the issuance of 30-year revenue bonds in the amount of \$9.4 million to be repaid from the Sewer Utility Fund's revenues. While

York County Board of Supervisors

November 18, 1999

Page 3

interest rates have risen they are still near historical lows and it is unlikely that future bonds issues can be sold at a significantly lower interest rate. Therefore, a repayment period of 30 years, rather than 20 years, is recommended.

Revenue bonds do not represent a general obligation of the County and no tax revenues are pledged for debt service. If the proposed bond sale is approved, the bonds will be repaid from the revenues generated from the bimonthly sewer fees. Issuance of revenue bonds as proposed will not adversely impact utility operations. The current rate structure generates enough revenue to service the debt and to pay the costs of system operations.

Staff has worked with the financial advisor and bond counsel to develop a timetable for bond issuance and to prepare the necessary documentation. As of the date of this memorandum, it appears that it will still be in the County's best interest to issue the proposed bonds prior to the end of the calendar year. However, due to the volatility of the bond market over the past several weeks and because market concern with Y2K compliance may affect the demand for bonds, it may be in the County's best interest to postpone the bond sale until next year.

Resolution R99-223 has been drafted with language that, if adopted, will approve the sale of the proposed bonds. In addition, it will give the County Administrator and the Director of Financial and Management Services the authority to work with the financial advisor and the underwriter to further analyze the market and choose an appropriate time for issuance of the bonds without further action by the Board. This approach will allow the maximum flexibility for dealing with a rapidly changing market.

Recommendation

I recommend adoption of Resolution R99-223 to approve the sale of revenue bonds as describe above.

McReynolds/3700

Attachment: Proposed Resolution R99-223

BOARD OF SUPERVISORS
COUNTY OF YORK
YORKTOWN, VIRGINIA

Resolution

At a regular meeting of the York County Board of Supervisors held in the Board Room, York County Finance Building, Yorktown, Virginia, on the ____ day of ____, 1999:

Present

Vote

Walter C. Zaremba
Sheila S. Noll
Albert R. Meadows
James W. Funk
Jere M. Mills

On motion of _____, which carried ____, the following resolution was adopted:

A RESOLUTION TO AUTHORIZE THE ISSUANCE AND SALE OF SEWER SYSTEM REVENUE BONDS

WHEREAS, the Board of Supervisors (the "Board") of the County of York, Virginia (the "County"), has determined that it is necessary to finance certain expansions and improvements to the County's sewer system (the "Project"), and that it is necessary and expedient to borrow up to \$9,400,000 and to issue the revenue bonds of the County to provide funds to pay the costs of the Project; and

WHEREAS, the Board has also determined to secure such bonds by a pledge of the County's sewer system revenues; and

WHEREAS, on December 1, 1999, the Board held a public hearing on the issuance of such bonds in accordance with the requirements of Section 15.2-2606 of the Code of Virginia of 1950, as amended (the "Virginia Code");

NOW, THEREFORE, BE IT RESOLVED by the York County Board of Supervisors this ____ day of ____, 1999, as follows:

1. Authorization of Bonds and Use of Proceeds. The Board hereby determines that it is advisable to contract a debt and to issue and sell revenue bonds (the "Bonds") of the County in the maximum principal amount of \$9,400,000. The issuance and sale of the Bonds is hereby authorized upon the terms set forth herein and upon such other

terms as may be determined in the manner set forth herein. The proceeds from the issuance and sale of the Bonds shall be used, together with other available funds, to pay the costs of the Project.

2. Financing Documents. The Bonds shall be issued pursuant to a Master Indenture of Trust (the "Master Indenture") between the County and a trustee (the "Trustee") to be selected by the Director of Financial and Management Services and a First Supplemental Indenture of Trust between the County and the Trustee. The Chairman of the Board and the County Administrator, or either of them, are authorized and directed to execute and deliver the Master Indenture and the First Supplemental Indenture of Trust.

3. Pledge of Revenues. The Bonds shall be limited obligations of the County and principal of, premium, if any, and interest on the Bonds shall be payable solely from the revenues derived by the County from its sewer system, as set forth in the Bonds, the Master Indenture and a First Supplemental Indenture of Trust pursuant to which the Bonds will be issued, and from other funds that have been or may be pledged for such purpose under the terms and conditions of the Master Indenture and the First Supplemental Indenture. Nothing in this Resolution, the Bonds, the Master Indenture or the First Supplemental Indenture shall be deemed to pledge the full faith and credit of the County to the payment of the Bonds.

4. Details of and Sale of Bonds. The Bonds shall be issued upon the terms established pursuant to this Resolution, the Master Indenture, and the First Supplemental Indenture. The Bonds shall be issued in fully registered form, shall be dated such date as the Director of Financial and Management Services may approve, shall bear interest payable semi-annually at the rates established as set forth below, shall be in the denominations of \$5,000 each or whole multiples thereof and shall be numbered from R-1 upwards consecutively.

The Board of Supervisors authorizes the sale of the Bonds to First Union Capital Markets Corporation, as underwriter ("Underwriter") and such other co-managing underwriters as the Director of Financial and Management Services may approve. The Chairman of the Board and the County Administrator, or either of them, are authorized and directed to execute and deliver a Bond Purchase Agreement with the Underwriter (the "Bond Purchase Agreement"), providing for the sale and delivery of the Bonds. The Chairman of the Board and the County Administrator, or either of them, are authorized and directed to determine and approve the final details of the Bonds, including, without limitation, the aggregate principal amount of the Bonds, the optional and mandatory redemption provisions and sale price of the Bonds to the Underwriter, provided that (i) the true interest cost of the Bonds, excluding any bond insurance premium, shall not exceed 9%; (ii) the final maturity of the Bonds shall not be later than approximately 30 years from their date; (iii) the sale price of the Bonds to the Underwriter excluding any original issue discount, shall not be less than 97% of par, and (iv) the aggregate principal amount of the Bonds shall not exceed \$9,400,000. The approval of such

officers shall be evidenced conclusively by the execution and delivery of the Bond Purchase Agreement.

5. Disclosure Documents. The County Administrator, the Director of Financial and Management Services and such officers and agents of the County as either of them may designate, are hereby authorized and directed to prepare, execute and deliver, as appropriate, a preliminary official statement, official statement, and such other disclosure documents as may be necessary to expedite the sale of the Bonds. Such disclosure documents shall be published in such publications and distributed in such manner and at such times as the County Administrator, the Director of Financial and Management Services or such officers or agents of the County as either of them may designate, shall determine. The County Administrator and the Director of Financial and Management Services or either of them, are authorized and directed to deem the Preliminary Official Statement "final" for purposes of Securities and Exchange Commission Rule 15(c)2-12 and to execute and deliver the final Official Statement in substantially the form of the Preliminary Official Statement, with such changes, insertions or omissions as the executing officer may approve.

6. Non-Arbitrage Certificate and Tax Covenants. The County Administrator and the Director of Financial and Management Services, or either of them, are authorized and directed to execute a Non-Arbitrage Certificate and Tax Covenants setting forth the expected use and investment of the proceeds of the Bonds and containing such covenants as may be necessary in order to comply with the provisions of the Internal Revenue Code of 1986, as amended ("Code"), including the provisions of Section 148 of the Code and applicable regulations relating to "arbitrage bonds." The Board covenants on behalf of the County that the proceeds from the issuance and sale of the Bonds will be invested and expended as set forth in the County's Non-Arbitrage Certificate and Tax Covenants, to be delivered simultaneously with the issuance and delivery of the Bonds and that the County shall comply with the other covenants and representations contained therein.

7. Further Actions. The County Administrator and the Director of Financial and Management Services, and such officers and agents of the County as either of them may designate, are authorized and directed to take such further action, including the execution and delivery of such documents and certificates as they deem necessary regarding the issuance and sale of the Bonds and all actions taken by such officers and agents in connection with the issuance and sale of the Bonds are hereby ratified and confirmed.

8. Designation for Purchase by Financial Institutions. The Board of Supervisors designates the Bonds as "qualified tax-exempt obligations" eligible for the exception from the disallowance of the deduction of interest by financial institutions allocable to the cost of carrying tax-exempt obligations in accordance with the provisions of Section 265(b)(3) of the Code. The Board of Supervisors does not reasonably anticipate that it and any "subordinate entities" will issue more than \$10,000,000 in tax-exempt obligations during calendar year 1999 (not including certain private activity bonds) and

the Board of Supervisors will not designate more than \$10,000,000 of qualified tax-exempt obligations pursuant to such Section 265(b)(3) in calendar year 1999.

9. Filing of Resolution. The appropriate officers or agents of the County are authorized and directed to file a certified copy of this Resolution with the Circuit Court of York County, Virginia pursuant to Section 15.2-2607 of the Virginia Code.

10. Effective Date. This Resolution shall take effect immediately.